



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Opening Statement of Sen. Chuck Grassley, Chairman
Senate Finance Committee
Budget Hearing with Secretary Michael Leavitt
Thursday, February 9, 2005

On Monday, February 6, President Bush released his proposed budget for Fiscal Year 2007. Today, it is my pleasure to welcome Secretary Michael Leavitt who will discuss the President's spending proposals related to Medicare and Medicaid. The Committee has a great interest in the Administration's priorities for the Department of Health and Human Services. This hearing will provide the Committee an opportunity to further discuss the details of the President's budget. Specifically, the President's budget proposes substantial savings in the Medicare program and additional reforms to Medicaid. Together, these provisions would decrease spending by almost \$50 billion over the next five years.

Just yesterday, the President signed it into law the Deficit Reduction Act. This legislation will reduce the growth in Medicare and Medicaid spending by \$11.1 billion over five years. This reduction is relatively modest – representing just one-fourth of one percent of what Congress would otherwise be spending on these programs during this period. However, it is nevertheless a significant accomplishment. It has been eight years since Congress last passed legislation that reduced mandatory spending. And, as you know, this achievement was not easy. I don't think I am going to shock anyone by saying that any more reductions of a significant scope could be difficult to achieve this year. The DRA will reduce Medicare spending by \$6.4 billion over five years. Some of the key provisions here included changing how Medicare pays for imaging services, durable medical equipment and oxygen.

The legislation also provides incentives for hospitals and home health agencies to report quality data. And, for the first time ever, Medicare will reduce payments to hospitals if patients acquire a preventable infection during their hospital stay. In Medicaid, the DRA responded to calls by America's bipartisan governors for new tools to help them improve services and control costs in the program. The result – \$6.9 billion in savings over five years.

The DRA will ensure that states accurately pay for prescription drugs. That elder law attorneys no longer exploit loopholes to get people with means onto Medicaid. That states can appropriately use cost-sharing to control utilizations. And, that health beneficiaries are not locked into a one-size fits all benefit but receive a benefit more like private insurance.

Finally, the DRA spends \$11 billion over 10 years to expand coverage for populations in need through the Family Opportunity Act, Money Follows the Person, expanded Home and Community Based Services and the Cash and Counseling Program.

It's especially rewarding to have included in the DRA a bill I first authored in 1999, the Family Opportunity Act, which I've pushed for year after year with Sen. Kennedy. It was inspired by an Iowa family struggling to access health care services for a disabled child. Melissa Arnold, the mother, didn't give up, and today's legislative victory is a tribute to her kind of determination. The measure will let states create options for families who have children with multiple medical needs to buy into Medicaid while continuing to work.

Now, back to this year. One area we will probably need to address this year is physician payments. The physician payment formula is still flawed. While the DRA provided a one-year, zero percent update to physician payments, doctors are scheduled for a 4.6 percent reduction in payments for 2007. And, there is conflicting news about hospitals. Hospitals, on average, are losing money treating Medicare patients. Yet, at the same time, USA Today reports that hospitals have their highest overall margins ever.

And all hospitals are not the same. Apparently, teaching hospitals are making a 6% profit on Medicare patients, while non-teaching hospitals are losing 6% treating beneficiaries. There is a problem here. I am sending a letter today to urge CMS to make changes that should improve the accuracy and equity of the hospital inpatient payment system. I think an across-the-board reduction – and in some cases a freeze – to provider payments will be challenging. There may be other ways to achieve the same goal. One area where we need to do more is in rewarding quality. As you know, I fully support efforts to link provider payment to quality. I see from the budget that the Administration supports differential updates to encourage physicians to report quality measures – something I also support. But frankly, I was a bit disappointed that the Administration is not proposing bolder steps in this area. We need to engage all providers – including physicians, nursing homes, and health plans.

The reporting of quality data is a good first step toward increased transparency. Just the reporting of quality data has resulted in improvements in quality for hospitals. And, I believe that consumers need access to quality and cost information on providers so that they can become more engaged in their health care decisions. We need more transparency on health costs because beneficiaries don't know what they are paying for. Data on providers' costs and quality should be publicly available to give consumers an idea of what they're buying.

Giving consumers more direct involvement in paying for their care will prompt them to shop for the best value, ultimately choosing the highest-quality and lowest-cost care. This will increase competition, resulting in improvements throughout the health care system. If Medicare reductions do end up on the table, the Medicare Advantage regional stabilization fund should be at the top of the list. This fund hasn't been used at all. There are already a good number of regional Medicare Advantage plans participating. It is clear that this fund is not needed.

The President's Budget calls for continued reform to the Medicaid and State Children's Health Insurance Program (SCHIP) programs. As I mentioned earlier, the DRA made significant changes to these programs. These changes were what governors across the country – Republican and Democrat – asked for to help keep Medicaid programs afloat for the millions of people who rely on Medicaid. I look forward to working with the Administration on implementing the provisions in the DRA.

The FY 07 Budget includes some Medicaid expansion programs. I support extending Transitional Medical Assistance for those families working their way off welfare and the Administration's "Cover the Kids" campaign. Additionally, I look forward to working with the Administration in addressing the upcoming shortfalls in the State Children's Health Insurance Program. I also look forward to hearing more about the President's proposals on the uninsured. There are now almost 46 million Americans without health care. We need new strategies to solve this persistent problem. Continued expansion of health savings accounts, coupled with tax deductions and credits to encourage their use, is a good step forward. I hope we can put partisan politics aside here and have a thoughtful debate on this critical issue. We must make changes to contain health care costs and help reduce the number of uninsured in this Country.

And, beneficiaries and taxpayers both deserve to get the highest value for every dollar that's spent on Medicare, Medicaid and other safety net programs. The President's budget always sets off a good debate on Capitol Hill. Mr. Secretary, thank you again for being here today and for sharing more detail on the President's proposals.